

**STRICTLY CONFIDENTIAL**

**EXECUTIVE SUMMARY**

**SUBMISSION TO** : Council

**DIVISION REQUESTING THE SUBMISSION** : Finance

**TITLE OF THE SUBMISSION**

**MFMA Section 16(1)&(2) – Annual budget 2020/21**

**1. SOLUTION REQUIRED**

|                             |          |
|-----------------------------|----------|
| <b>Strategy Endorsement</b> |          |
| <b>Commercial Options</b>   |          |
| <b>Approval</b>             |          |
| <b>Information</b>          | <b>X</b> |

**2. PURPOSE**

To table the draft annual budget for the 2020/21 Multi Term Revenue and Expenditure Framework (MTREF).

**3. LEGISLATIVE BACKGROUND**

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and in order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

**4. DISCUSSION**

**Overview of the Budget Process**

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2020/21 Financial Year in August 2019. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements for the draft IDP however due to COVID19 lockdown the consultation process had to be done using other platforms such as putting the notice on the website and local newspaper requesting comments from the public as well final IDP and Budget had to.

### **Budget assumptions**

National Treasury issued MFMA/Budget Circular 99 indicating information relevant in the compilation of the 2020/21 budget. The following CPI's were used to project expenditure for the 2020/21 financial year as well as the two subsequent years:

| Item                | 2020/21 | 2021/22 | 2022/21 |
|---------------------|---------|---------|---------|
| Salaries            | 6.25%   | 4.6%    | 4.6%    |
| General expenditure | 4.5%    | 4.6%    | 4.6%    |

There has been an increment of 8.1% on Bulk electricity and 6.6% increase on water and ERWAT. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2020/21 financial year.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on conditional grants

Division of Revenue bill of 2020/21 financial year has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said bill, that the Lesedi's allocation for equitable share is estimated at R148 million, indicated in Division of Revenue bill of 2020/21 financial year, while Municipal Infrastructure Grant is estimated at R26.4 million. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

### **Cost containment measures**

In MFMA Circular No. 97 requires all municipalities to implement cost containment measures with effect of July 2019. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible and develop a cost containment policy.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

### **Overview of alignment of the Budget with the IDP**

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

### **Measurable Performance Objectives and Indicators**

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

## **5. FUNDING OF THE BUDGET**

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in section 17(2).

### **Tariff increases**

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 99 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be affected in the 2020/21 financial year.

|                  |   |       |
|------------------|---|-------|
| Assessment Rates | - | 4.9%. |
| Electricity      | - | 6.23% |
| Water            | - | 6.6%  |
| Sanitation       | - | 4.9%  |
| Refuse           | - | 4.9%. |
| Other income     | - | 4.9%. |
| Rental           | - | 10%   |

The electricity tariff application is in line with NERSA's guidelines and as a result is approved by them.

The following are budget related policies are presented for adoption:

- ❖ Credit Control and Debt Collection Policy
- ❖ Indigent Management Policy
- ❖ Tariff Policy
- ❖ Property Rates Policy
- ❖ Supply Chain Management Policy
- ❖ Cost containment policy
- ❖ Asset Management policy
- ❖ Budget policy
- ❖ Virement policy
- ❖ Loan policy
- ❖ Grants policy
- ❖ Funds reserves policy
- ❖ Inventory management policy
- ❖ Cash Management and payment of creditors policy
- ❖ Supply chain management policy

- ❖ Short term insurance policy
- ❖ Funding and reserves policy
- ❖ Provision for doubtful debtors and debt write off policy
- ❖ Investments policy
- ❖ Long term financial policy

## **Revenue**

Proposed revenue for the 2020/21 financial year is as follows:

| <b>Description</b>                   | <b>Budget<br/>2020/21<br/>R</b> | <b>Budget<br/>(outer year)<br/>2021/22<br/>R</b> | <b>Budget<br/>(outer year)<br/>2022/23<br/>R</b> | <b>Weighting</b> |
|--------------------------------------|---------------------------------|--|--|------------------|
| Property rates                       | 135,625,634                     | 142,271,291                                      | 149,242,584                                      | 13.4             |
| Service charges- electricity revenue | 367,083,522                     | 389,850,522                                      | 414,030,895                                      | 36.1             |
| Service charges – Water revenue      | 129,982,158                     | 138,551,261                                      | 147,685,449                                      | 12.8             |
| Service charges – sanitation revenue | 32,976,846                      | 34,592,711                                       | 36,287,754                                       | 3.2              |
| Service Charges refuse revenue       | 35,285,092                      | 37,014,062                                       | 38,827,751                                       | 3.5              |
| Fines                                | 35,065,563                      | 36,783,776                                       | 38,586,181                                       | 3.5              |
| Interest earned outstanding debtors  | 35,988,137                      | 37,844,033                                       | 39,796,972                                       | 3.5              |
| Transfers recognized -Operational    | 162,749,024                     | 179,328,479                                      | 203,279,479                                      | 16.0             |
| Transfers recognized -Capital        | 71,074,000                      | 73,241,000                                       | 78,610,000                                       | 7.0              |
| Rental of facilities and equipment   | 5,587,756                       | 5,861,554  | 6,148,771  | 0.6              |
| Other revenue                        | 4,257,880                       | 4,466,515  | 4,685,375  | 0.4              |
| <b>Total</b>                         | <b>1,015,675,612</b>            | <b>1,064,832,078</b>                             | <b>1,157,181,211</b>                             | <b>100</b>       |

The largest revenue items are electricity at 36.1%, grant income at 23% (16% is operational grants and 7% is capital grants), property rates at 13.4% and water sales at 12.8%. The three items generate 85.3% of the revenue of the municipality.

### **Expenditure**

Proposed expenditure for the financial year is as follows:

| <b>Description</b>                    | <b>Budget<br/>2020/21<br/>R</b> | <b>Budget<br/>(outer year)<br/>2021/22<br/>R</b> | <b>Budget<br/>(outer year)<br/>2022/23<br/>R</b> | <b>Weighting</b> |
|---------------------------------------|---------------------------------|--|--|------------------|
| Employee costs                        | 215,770,342                     | 226,662,542                                      | 237,724,630                                      | 22.3             |
| Councillors remuneration              | 12,559,572                      | 13,375,944                                       | 14,084,869                                       | 1.3              |
| Debt Impairment                       | 158,355,796                     | 166,728,545                                      | 175,549,677                                      | 16.4             |
| Depreciation                          | 39,845,956                      | 41,687,517                                       | 43,730,203                                       | 4.1              |
| Finance charges                       | 7,607,693                       | 7,547,828  | 7,917,673  | 0.8              |
| Bulk purchases: Electricity and Water | 363,306,696                     | 388,150,882                                      | 414,694,535                                      | 37.6             |
| Other Materials                       | 17,452,857                      | 17,658,889                                       | 18,516,775                                       | 1.8              |
| Contracted services                   | 95,961,839                      | 85,955,457                                       | 97,272,720                                       | 9.9              |
| Other expenditure                     | 55,087,636                      | 57,509,580                                       | 59,850,221                                       | 5.7              |
| <b>Total Expenditure</b>              | <b>965,948,387</b>              | <b>1,005,277,184</b>                             | <b>1,069,341,303</b>                             | <b>100.0</b>     |

The largest expenditure items are bulk purchases at 37.6% employee related costs at 22.3% and debt impairment at 16.4%. The three items make up 76.3% of the expenditure of the municipality.

### **Capital Budget**

The Capital Budget amounts to R79,691,405 and is funded as follows:

| <b>Description</b>              | <b>Budget<br/>2020/21<br/>R</b> | <b>Weighting</b> |
|---------------------------------|---------------------------------|------------------|
| National Government funded      | 65,639,000                      | 82%              |
| <i>Lesedi L.M. (own funded)</i> | 14,052,405                      | 18%              |
| <b>TOTAL</b>                    | <b>79,691,405</b>               | <b>100%</b>      |

| CAPITAL PROJECTS 2020/21    |                     |  |                              |  |               |               |               |               |               |
|-----------------------------|---------------------|--|------------------------------|--|---------------|---------------|---------------|---------------|---------------|
| GRANT FUNDED PROJECTS       |                     |  |                              |  |               |               |               |               |               |
| Typ                         | Votenummer          | Description                                  | Department                   | Source of funding                                  | Budget        | Adj Budget    | Budget 20/21  | Budget 21/22  | Budget 22/23  |
| P                           | 31106420420CLD06ZWM | VEHICLE                                      | Libraries                    | Recapitalisation of Community Grant - Libraries    | -             | -             | 500 000.00    | 525 000.00    | 550 000.00    |
| P                           | 31106456420CLD48ZWM | ALARM SYSTEM                                 | Libraries                    | Recapitalisation of Community Grant - Libraries    | -             | 50 000.00     | -             | -             | -             |
| P                           | 31106456420LBD49ZWM | RFID GATES                                   | Libraries                    | Library Plan                                       | -             | 280 000.00    | -             | -             | -             |
| P                           | 31106460420CLC9SZWM | FURNITURE                                    | Libraries                    | Recapitalisation of Community Grant - Libraries    | 150 000.00    | -             | 300 000.00    | 315 000.00    | 330 000.00    |
| P                           | 31106460420LBD44ZWM | CCTV CAMERAS                                 | Libraries                    | Library Plan                                       | -             | 50 000.00     | -             | -             | -             |
| P                           | 31106460420LBD45ZWM | BIG SCREEN TV                                | Libraries                    | Library Plan                                       | -             | 50 000.00     | -             | -             | -             |
| P                           | 31106460420LBD47ZWM | OFFICE EQUIPMENT                             | Libraries                    | Library Plan                                       | -             | 78 000.00     | -             | -             | -             |
| P                           | 3110647020CLC84ZWM  | COMPUTER HARDWARE                            | Libraries                    | Recapitalisation of Community Grant - Libraries    | 480 000.00    | 510 000.00    | 250 000.00    | 262 500.00    | 275 000.00    |
| P                           | 31106473520CLD08ZWM | MAINTENANCE DEVON                            | Libraries                    | Recapitalisation of Community Grant - Libraries    | 2 000 000.00  | 430 433.00    | -             | -             | -             |
| P                           | 31106473520CLD04ZWM | REWIRING OF HEIDELBERG LIBRARY               | Libraries                    | Recapitalisation of Community Grant - Library Plan | -             | 1 917 483.00  | -             | -             | -             |
| P                           | 31106473520CLD08ZWM | NEW BOOKS                                    | Libraries                    | Recapitalisation of Community Grant - Libraries    | 1 000 000.00  | 3 000 000.00  | 1 000 000.00  | 1 050 000.00  | 1 100 000.00  |
| P                           | 31106473520CLD38ZWM | FENCING OF RATANDA PROPER                    | Libraries                    | Library Plan                                       | 1 000 000.00  | 2 000 000.00  | -             | -             | -             |
| P                           | 31106473520CLD39ZWM | CAR PORT IN RATANDA                          | Libraries                    | Recapitalisation of Community Grant - Libraries    | 120 000.00    | 129 045.00    | -             | -             | -             |
| P                           | 31106473520CLD55ZWM | KWA - ZENZELE LIBRARY                        | Libraries                    | Library Plan                                       | -             | -             | 2 515 000.00  | 2 694 000.00  | 2 874 400.00  |
| P                           | 31106473520LBD46ZWM | PLAY AREA EQUIPMENT                          | Libraries                    | Library Plan                                       | -             | 150 000.00    | -             | -             | -             |
| P                           | 31206473520CGD50ZWM | FIRE ENGINE                                  | Fire Fighting and Protection | COGTA  | -             | 6 000 000.00  | -             | -             | -             |
| P                           | 3715643420PC61ZWM   | ELECTRIFICATION- OBED NKOSI                  | Electricity                  | INEP   | 900 000.00    | -             | 6 545 000.00  | -             | -             |
| P                           | 37156433020PC63ZWM  | STREET LIGHTS (EDDSM)                        | Electricity                  | EEMD   | 7 000 000.00  | -             | -             | -             | -             |
| P                           | 37156433020PC65ZWM  | ELECTRIFICATION- OBED NKOSI                  | Electricity                  | INEP   | 727 600.00    | -             | -             | -             | -             |
| P                           | 37156437020PD12ZWM  | ELECTRIFICATION- IMPUMELELO - MV             | Electricity                  | INEP   | 5 000 000.00  | 4 027 600.00  | 12 455 000.00 | 15 500 000.00 | 18 000 000.00 |
| P                           | 37156437420PD11ZWM  | ELECTRIFICATION- IMPUMELELO - LV             | Electricity                  | INEP   | 6 372 400.00  | 6 372 400.00  | -             | -             | -             |
| P                           | 37156437420PD13ZWM  | INSTALLATION OF HIGHMASTS AT LESEDI          | Electricity                  | MIG  | 1 904 000.00  | 3 104 000.00  | -             | 6 241 000.00  | -             |
| P                           | 37306472420FMD01ZWM | CONST ROADS & S/W RATANDA 1;3;6 & OBED N     | Roads and Stormwater         | MIG  | 11 500 000.00 | 1 100 000.00  | 5 490 000.00  | 7 000 000.00  | 8 000 000.00  |
| P                           | 37306472420FMD15ZWM | CONSTR ROADS & STORMWATER JAMESON PARK       | Roads and Stormwater         | MIG  | 7 800 000.00  | 7 800 000.00  | 5 977 581.04  | -             | 13 000 000.00 |
| P                           | 37306472420FMD16ZWM | CONSTR ROADS & STORMWATER RATANDA EXT7       | Roads and Stormwater         | MIG  | 4 000 000.00  | 4 000 000.00  | 2 910 000.90  | -             | -             |
| P                           | 37306472420FMD51ZWM | CONSTR ROADS & STORMWATER EXT 23             | Roads and Stormwater         | MIG  | -             | -             | 6 171 418.06  | 5 000 000.00  | -             |
| P                           | 37306472420FMD53ZWM | CONSTR ROADS & STORMWATER KWAZENZELE PHASE 1 | Roads and Stormwater         | MIG  | -             | -             | 5 700 000.00  | 10 000 000.00 | 8 698 000.00  |
| P                           | 37356449420FMD14ZWM | UPGRADING OF DEVON WASTE WATER TREATMENT     | Waste Water Management       | MIG  | 1 200 000.00  | -             | -             | -             | -             |
| P                           | 37356449420WGD18ZWM | UPGR SEWER PIPELINE THOKOLOHONG AGRI VIL     | Waste Water Management       | MIG  | 7 000 000.00  | 2 000 000.00  | -             | -             | -             |
| P                           | 37356449420WGD54ZWM | UPGR SEWER PIPELINE IN RATANDA EXT 2         | Waste Water Management       | WSIG   | -             | -             | 6 000 000.00  | 7 220 000.00  | 7 566 560.00  |
| P                           | 37456446020WGD17ZWM | REPLACEMENT OF ASBESTOS PIPES LESEDI PS      | Waste Water Management       | WSIG   | 8 000 000.00  | 8 000 000.00  | 9 825 000.00  | 11 780 000.00 | 12 945 440.00 |
| Total Grant funded Projects |                     |  |                              |  | 66 154 000.00 | 51 048 961.00 | 65 639 000.00 | 67 587 500.00 | 72 739 400.00 |

| INTERNAL FUNDED PROJECTS       |                      |   |                                      |                   |               |               |               |               |               |
|--------------------------------|----------------------|---|--------------------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|
| Typ                            | Votenummer           | Description                             | Department                           | Source of funding | Budget        | Adj Budget    | Budget 20/21  | Budget 21/22  | Budget 22/23  |
| P                              | 31106473520CFD55Z2WA | KWA - ZENZELE LIBRARY                   | Libraries                            | Internal Funding  | -             | -             | 1 200 000.00  | -             | -             |
| P                              | 31156472420CFD30Z2WM | INTERNAL ROADS EXKHUTULENI CEMETERY     | Cemeteries                           | Internal Funding  | 1 500 000.00  | -             | -             | -             | -             |
| P                              | 31206456420CFD27Z2WM | FIRE ENGINE                             | Fire Fighting and Protection         | Internal Funding  | 4 500 000.00  | 4 652 405.00  | 4 652 405.00  | -             | -             |
| P                              | 31306420420CFD06Z2WM | VEHICLE                                 | Health                               | Internal Funding  | -             | -             | -             | -             | -             |
| P                              | 31556456020CFD08Z2WM | BUSH CUTTERS; CHAINSAWS; BLOWERS        | Biodiversity and Landscape           | Internal Funding  | 350 000.00    | 115 470.00    | 200 000.00    | -             | -             |
| P                              | 32156421020CFD40Z2WM | MAYOR'S CAR                             | Executive Mayor                      | Internal Funding  | 700 000.00    | 527 044.00    | -             | -             | -             |
| P                              | 32206421020CFD41Z2WM | SPEAKER'S CAR                           | Speaker                              | Internal Funding  | 500 000.00    | 502 174.00    | -             | -             | -             |
| P                              | 33206473520CFD56Z2W6 | SHARED ECONOMIC INFRASTRUCTURE FACILITY | LED                                  | Internal Funding  | -             | 59 960.00     | -             | -             | -             |
| P                              | 34106472420CFD34Z2HO | UPGRADE OF MUNICIPAL BUILDING           | Finance                              | Internal Funding  | 300 000.00    | -             | -             | -             | -             |
| P                              | 35106460420CFD9Z2WM  | FURNITURE                               | Administrative and Corporate Support | Internal Funding  | 350 000.00    | -             | -             | -             | -             |
| P                              | 35206470020CFD8Z2WM  | COMPUTER HARDWARE                       | ICT                                  | Internal Funding  | 1 000 000.00  | 642 911.00    | 1 500 000.00  | -             | -             |
| P                              | 37156420420CFD9Z2WM  | VEHICLE CHERRY PICKER                   | Electricity                          | Internal Funding  | -             | 300 000.00    | -             | -             | -             |
| P                              | 37156433020CFD66Z2W4 | ELECTRIFICATION- RATANDA EXT 8          | Electricity                          | Internal Funding  | 500 000.00    | 500 000.00    | -             | -             | -             |
| P                              | 37156433020CFD70Z2W4 | ELECTRIFICATION- IMPUMELELO             | Electricity                          | Internal Funding  | -             | -             | 3 000 000.00  | -             | -             |
| P                              | 37156433020CFD22Z2WM | UPGRADING & REFURBISHMENT OF NETWORK    | Electricity                          | Internal Funding  | 500 000.00    | -             | -             | -             | -             |
| P                              | 37156456420CFD24Z2WM | TOOLS & EQUIPMENT                       | Electricity                          | Internal Funding  | 150 000.00    | 27 000.00     | -             | -             | -             |
| P                              | 37306472420CFD87Z2WM | RESEALING OF ROADS                      | Roads and Stormwater                 | Internal Funding  | 5 000 000.00  | -             | 3 500 000.00  | -             | -             |
| P                              | 37306472420CFD98Z2W8 | CONSTRUCTION OF ROADS JAMESON PARK      | Roads and Stormwater                 | Internal Funding  | -             | 1 310 000.00  | -             | -             | -             |
| P                              | 37356420420CFD93Z2WM | TRAILERS                                | Waste Water Management               | Internal Funding  | 350 000.00    | -             | -             | -             | -             |
| P                              | 37456456420CFD37Z2W4 | UPGRADING TELEMETRY SYSTEM              | Water                                | Internal Funding  | 500 000.00    | -             | -             | -             | -             |
| Total Internal funded Projects |                      |   |                                      |                   | 16 200 000.00 | 8 636 964.00  | 14 052 405.00 | -             | -             |
| TOTAL CAPITAL                  |                      |   |                                      |                   | 82 354 000.00 | 59 685 925.00 | 79 691 405.00 | 67 587 500.00 | 72 739 400.00 |

## 5. LEGISLATIVE PROVISION

Section 16 (1) and (2) of the MFMA.

## 6. LC.CM-.../05/2020 RECOMMENDATION

**6.1 THAT** Council notes the annual budget with operational and capital revenue of R1,015,675,612 operational expenditure of R965,948,387 and Capital Expenditure of R79,691,405 for the 2020/21 financial year as contained in the following tables: